

Message Text

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PAGE 01 SAN JO 02971 171905Z

41

ACTION ARA-10

INFO OCT-01 ISO-00 ARAE-00 L-03 H-02 NSC-05 SS-15 AID-05

CIAE-00 COME-00 EB-07 FRB-01 INR-07 NSAE-00 USIA-15

TRSE-00 XMB-04 OPIC-06 SP-02 CIEP-02 OMB-01 DODE-00

PA-02 PRS-01 /089 W

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P 171815Z JUL 75

FM AMEMBASSY SAN JOSE

TO SECSTATE WASHDC PRIORITY 823

UNCLAS SAN JOSE 2971

EO 11652: NA

TAGS: EFIN CS

SUBJ: LATIN AMERICAN BANK

REF: SAN JOSE 2852

SUMMARY: AT A LUNCHEON HOSTED BY THE AMERICAN CHAMBER OF COMMERCE ON JULY 16, CENTRAL BANK PRESIDENT BERNAL JIMENEZ PUBLICLY ANNOUNCED HIS GOVERNMENT'S REJECTION OF THE COUNTER-PROPOSAL MADE BY THE GROUP OF CREDITORS OF THE LAB, GRAND CAYMAN, MEETING IN NEW YORK. TODAY'S PRESS CARRIED COPIES OF AN EXCHANGE OF CABLES BETWEEN THE CREDITORS AND PRESIDENT ODUBER IN WHICH ODUBER REJECTED THE COUNTER-PROPOSAL STATING THAT PRIVATE COMPANIES ARE RESPONSIBLE FOR THEIR OWN LOSSES AND CANNOT EXPECT THE GOVERNMENT TO ASSUME THIS RESPONSIBILITY FOR THEM. IT IS UNDERSTOOD THAT THE CREDITORS HAVE NOW COME BACK WITH A SECOND COUNTER-PROPOSAL WHICH IS BEING STUDIED BY THE GOCR. END SUMMARY.

1. IN HIS LUNCHEON REMARKS YESTERDAY, CENTRAL BANK PRESIDENT BERNAL JIMENEZ TOLD MEMBERS OF THE AMERICAN CHAMBER OF COMMERCE THAT LAB HAD CREATED ITS OWN
UNCLASSIFIED

UNCLASSIFIED

PAGE 02 SAN JO 02971 171905Z

PROBLEM AND COULD NOT LOOK TO THE CENTRAL BANK TO

PAY ITS DEBTS. HE DESCRIBED THE PROPOSAL MADE BY THE CENTRAL BANK AND REPORTED IN REFTEL AS BEING A GENEROUS ONE UNDER THE CIRCUMSTANCES AND IMPLIED THAT THE GOCR WAS NOT PREPARED TO GO BEYOND IT. HE ALSO ANNOUNCED THAT THE GOCR HAD RECEIVED A COUNTER-PROPOSAL FROM THE CREDITORS OF LAB WHO WERE CURRENTLY MEETING IN NEW YORK AND THAT THE BANK HAD REJECTED THE COUNTER-PROPOSAL. (REPORTEDLY THIS CALLED IN EFFECT FOR A 100 GUARANTEE BY THE GOCR.) JIMENEZ STATED THAT BASED ON THE LAB EXPERIENCE THE GOCR WOULD BE LOOKING INTO WAYS TO STRENGTHEN THE REGULATIONS OF FINANCIAL INSTITUTIONS IN THE FUTURE INCLUDING THE REGULATION OF COSTA RICAN CORPORATIONS WHICH SELL BONDS TO THE PUBLIC WITHOUT PRIOR GOVERNMENT APPROVAL. HE ASSURED THE BUSINESSMEN PRESENT, HOWEVER, THAT THE CENTRAL BANK HAD NO INTENTION OF NATIONALIZING THE FINANCIERAS (PRIVATE DEVELOPMENT BANKS) CURRENTLY OPERATING IN THE PRIVATE SECTOR. JIMENEZ ALLUDED TO THE SUM OF \$5 MILLION WORTH OF CERTIFICATES OF DEPOSIT ISSUED BY LAB STATING THAT THE ISSUANCE OF THESE CERTIFICATES WAS COMPLETELY ILLEGAL IN COSTA RICA. (IN A SEPARATE PRESS INTERVIEW HELD LATER JIMENEZ ADDED THAT ALTHOUGH THESE TRANSACTIONS WERE ILLEGAL, THE COSTA RICAN LAW WOULD PROTECT THE HOLDERS OF THESE CERTIFICATES).

2. JIMENEZ EMPHASIZED THAT LAB IS A FOREIGN, I.E. GRAND CAYMAN, AND NOT A COSTA RICAN BANK AND THAT ITS ACTIVITIES HAVE UNJUSTLY DISTORTED COSTA RICA'S IMAGE ABROAD. JIMENEZ STRESSED THAT FOREIGN BANKS SUCH AS LAB, GRAND CAYMAN, ARE RESPONSIBLE FOR THEIR OWN ACTIONS. HE WARNED THE CREDITORS THAT IT WAS IN THEIR OWN INTEREST TO COME UP WITH A SOLUTION TO THIS PROBLEM AND THAT TO PLACE LAB INTO BANKRUPTCY WOULD PROBABLY CAUSE MORE HARM THAN GOOD TO THEIR OWN INTERESTS.

3. THE MORNING PRESS REPORTS THAT THE CREDITORS HAVE COME BACK TO THE CENTRAL BANK WITH A SECOND COUNTER-PROPOSAL. THIS PROPOSAL APPEARS TO MORE CLOSELY

UNCLASSIFIED

PAGE 03 SAN JO 02971 171905Z

FOLLOW THE ORIGINAL SCHEME PUT FORTH BY THE CENTRAL BANK EXCEPT THAT IT WOULD CALL FOR THE CENTRAL BANK TO ASSUME 50 PERCENT RATHER THAN 30 PERCENT OF LAB'S PORTFOLIO, I.E. SOME \$11 MILLION. THE PRESS REPORTS THAT IT IS POSSIBLE THAT THE BOARD OF DIRECTORS OF THE CENTRAL BANK WILL CONSIDER THIS PROPOSAL TOMORROW.

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC ASSISTANCE, POLICIES, BANKS
Control Number: n/a
Copy: SINGLE
Draft Date: 17 JUL 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975SANJO02971
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D750247-0745
From: SAN JOSE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750746/aaaabpiw.tel
Line Count: 114
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION ARA
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: 75 SAN JOSE 2852
Review Action: RELEASED, APPROVED
Review Authority: ShawDG
Review Comment: n/a
Review Content Flags:
Review Date: 11 FEB 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <11 FEB 2003 by ThomasVJ>; APPROVED <23 MAR 2004 by ShawDG>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
06 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: LATIN AMERICAN BANK
TAGS: EFIN, CS, XM, CENTRAL BANK, LATIN AMERICAN BANK, LATIN AMERICAN BANK OF GRAND CAYMAN
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006